

OERM | Status Report

Establish Office of Enterprise Risk Management

| Action | Work Completed | Status | Target Date |
|---|---|----------|-------------|
| Recruit and Hire Chief Risk Officer | A recruitment bulletin for the Chief Risk Officer position was issued on December 1, 2010. The final filing date was January 14, 2011. | Complete | -- |
| Determine Structure of OERM | As detailed in the Organizational Structure workshop at the November Board meeting, the OERM will report to the CFO, and will contain the functions of Enterprise Compliance, Information Security, Risk Intelligence, and Business Continuity. | Complete | -- |
| Determine Staffing and Budget Requirements | A Formal Budget Request for one-time and ongoing funding and 4 PYS to establish the OERM has been approved by the budget office and is pending Executive and Board approval. Disaster Recovery personnel and budgets have been transferred to the OERM. | Complete | -- |
| Determine Office Space Needs | Currently, all staff transferred to the OERM remain in their original locations except for Business Continuity staff who were relocated within the Office of Privacy and Security. Office space needs will be determined concurrent with space planning for the organizational redesign initiative. Any other space needs will be consistent with the Organizational Alignment project. | Complete | -- |
| Determine Initial IT Requirements | The OERM continues to use existing Microsoft Office applications while development of risk processes is underway. Staff have built a prototype risk database to use in developing requirements for a final solution. For the long-term, the OERM is reviewing several possible IT solutions. These include systems currently in use in CalPERS, such as risk watch and risk radar, and also GRC applications from Oracle, OpenPages, and SAS. | Complete | -- |

Operationalize Risk Intelligence Activities

| Action | Work Completed | Status | Target Date |
|---------------------------------|---|----------|-------------|
| Conduct Risk Assessments | Organizational Alignment: The OERM conducted an initial risk assessment of the Organizational Alignment Initiative in October 2010. The top risks were identified and owners and mitigation strategies were assigned. These risks will be monitored and updated on an ongoing basis. | On Track | June 2011 |
| | Stakeholder Relations Risk: A risk assessment is currently underway and includes Board and Executive interviews, | On Track | June 2011 |

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| | <p>surveys of stakeholders, and analysis of historical press releases. A baseline and recommendations for sustainability will be provided by June 2011.</p> <p>Health Care Reform: The OERM completed a risk assessment of several provisions of Health Care Reform legislation implemented in Fiscal Year 2010-11. Additional assessments will be carried out as regulations are developed.</p> <p>Black Swans and Scenario Planning: The OERM has conducted workshops with Executive Staff to identify Black Swan events and their potential impact to CalPERS goals and objectives. Development of scenarios is currently underway, and signals and data sources will be identified by March 2011. Data acquisition and analysis will be completed by June 2011.</p> <p>Other: As further capabilities are developed, risk assessments of Pension Reform, and Business Planning will be conducted.</p> | <p>On Track</p> <p>On Track</p> <p>On Track</p> | <p>June 2011</p> <p>June 2011</p> <p>October 2011</p> |
| <i>Inventory Enterprise Risks</i> | Based on best practices research and previous risk assessments, and in conjunction with the Investment Office, Information Security, and Control Functions, the OERM has developed version 1.0 of a comprehensive enterprise risk taxonomy. This inventory was used by senior management in preparing the April risk exposure reports. Moving forward, the OERM will identify owners, metrics, and tolerance for each specific risk. | On Track | September 2011 |
| <i>Develop Enterprise Process Model and Catalog Key Operational Risk Indicators in CalPERS Policies</i> | The OERM has developed a draft Enterprise Process Model to view the distribution of risks across functional areas. This Process Model will be further developed and tied to key metrics and operational risk indicators, including parameters as established in existing CalPERS policies. A prototype Enterprise Process Model will be completed by December 2011. | On Track | December 2011 |
| <i>Convene Enterprise Risk Management Committee</i> | In September 2010, the OERM presented a charter for the Executive Risk Management Committee (ERMC) outlining roles, responsibilities, and risk governance. The first ERMC was convened in November 2010. The committee identified and prioritized the top 10 enterprise risks and mitigation strategies. At further meetings, the ERMC reviewed and approved the risk analysis and reporting processes. Additional ERMC meetings will be held monthly. | Complete | Monthly |
| <i>Develop Board Reports</i> | The OERM conducted an enterprise risk assessment with input from division chiefs and senior management. Results were reviewed and approved by Executive Staff. A risk dashboard, focus list, and emerging risk list have been prepared for the June Risk Committee. | On Track | June 2011 |

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Implement Change Management Strategies

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| Embed Risk Management into Governance and Workflow | The OERM is evaluating ways to incorporate consideration of risk into Board Agenda Items. The OERM will develop a framework for including risk assessments in policy development, business planning, resource requests, and issue papers. | On Track | June 2011 |
| Develop Risk Awareness Training | The OERM is developing risk training programs for senior managers and all staff. These training programs will educate staff on proper reporting and managing of risk and will promote a risk-intelligent culture. An Executive training session will be held in March 2011, followed by train-the-trainer courses and risk training for all managers. 80% of all managers and supervisors will complete risk training by December 2011. | On Track | December 2011 |
| Develop Risk Management Tools | Several tools for risk analysis are currently under development. These include: <ul style="list-style-type: none"> • Thesis – Antithesis – Synthesis • Failure Mode and Effects Analysis • Root Cause Analysis • SIPOC (Suppliers, Inputs, Process, Outputs, Customers) The OERM is evaluating how to best integrate these tools into current CalPERS processes and risk awareness training programs. | On Track | December 2011 |
| Conduct Change Management Strategy Workshops | As work progresses, the OERM will continue to hold focus groups with senior managers to ensure proposed tools, techniques, and methodologies are appropriate to their needs prior to full-scale implementation. | On Track | September 2011 |

Determine Synergies with Other Functions

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|---|---|----------|--------------------|
| Evaluate Inspector General Function | The OERM completed an analysis of the possible benefits and risks of an Inspector General function, and how that function could fit into the CalPERS organizational structure. This analysis was presented and discussed in the November 2010 Board workshop. | Complete | -- |
| Examine Relationship with Audits | As risk assessments and policy development progress, the OERM will continue to work closely with the Office of Audit Services. Work is currently underway on tying the audit of the business plan to risk assessments and coordinating work on the audit resolution policy. | Complete | At least Quarterly |
| Correlation with Investment Office Risk Management | The OERM continues to hold meeting with the investment office to identify synergies, gaps, and overlaps in services provided. The results of these discussions will be reflected in the outcome of the Organizational Alignment Initiative. | Complete | At least Quarterly |

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| <i>Coordinate Activities with Enterprise Compliance Office, Office of Privacy and Security, Disaster Recovery, and Business Continuity</i> | The OERM is currently looking at the timelines for various enterprise control functions in an effort to synchronize assessments, eliminate duplication, and reduce the workload impact to the enterprise. | Complete | At least Quarterly |